



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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October 27, 2011

TO: Gail Farber, Director  
Department of Public Works

FROM: Wendy L. Watanabe  
Auditor-Controller

*Wendy L. Watanabe  
by J. Schneiderman*

SUBJECT: **DEPARTMENT OF PUBLIC WORKS PETTY CASH FUND REVIEW**

In October 2009, the Department of Public Works (DPW or Department) received a waiver from the Auditor-Controller (A-C) to allow the Department to use petty cash to reimburse employees for parking expenses. The waiver was limited to employees who are not eligible to file claims through the mileage reimbursement program (non-permittees). DPW was previously reimbursing these employees through employee expense claims, and asked to use petty cash because DPW believed it would improve the reimbursement process.

**Summary**

We reviewed DPW's Petty Cash Fund to ensure the Department was complying with the waiver and other County Fiscal Manual (CFM) requirements. Our review disclosed that DPW had exceeded the authority granted to it under the waiver, and was not complying with CFM requirements. Specifically, the Department was using petty cash to reimburse parking expenses to mileage permittees, and to make unallowable payroll advances to employees. We also noted that DPW needed to increase the frequency of its surprise cash counts to required intervals, and ensure they marked petty cash receipts "paid".

We discussed the results of our review with DPW management. Their attached response indicates that they have taken action to limit petty cash reimbursement to non-permittees, and stopped making payroll advances to employees. DPW management also indicated general agreement with our other findings and recommendations.

The following are the detailed results of our review.

### **Parking Expense Waiver**

In October 2009, the A-C granted DPW a waiver to CFM Section 4.6.5, and allowed DPW to use petty cash to reimburse parking expenses to employees who were not mileage permittees. DPW requested the waiver because they believed it was inefficient to require non-mileage permittees to complete expense claims for small parking expenses. The waiver was limited to reimbursing parking expenses for non-mileage permittees.

We noted that DPW was exceeding the authority granted in the waiver. Specifically, we reviewed 16 petty cash parking expense reimbursements, and noted that eight (50%) were for DPW employees who were mileage permittees. CFM Section 13.12 states that mileage permittees should be reimbursed by filing mileage claims.

Based on exceeding the waiver and the other issues noted in our review, we believe that DPW needs to implement corrective action to limit petty cash reimbursements to non-permittees, and address the other deficiencies noted in this report, and report back to the A-C within 30 days. Otherwise, we will reevaluate the waiver for reimbursing parking expenses.

### **Recommendations**

#### **DPW management:**

- 1. Report back to the A-C within 30 days with the status of corrective actions taken to address the control deficiencies in this report.**
- 2. Ensure mileage permittees use mileage claims to be reimbursed for parking expenses.**

### **Employee Payroll Advances**

In reviewing DPW's petty cash transactions, we noted five instances where DPW used petty cash to make payroll advances to Department employees. These advances violate CFM Section 1.6.3, which prohibits using petty cash to make loans to employees, except for properly pre-authorized petty cash purchases. Loans and advances are prohibited because of the potential for fraud or abuse.

DPW Fiscal Division management indicated that they had a long-standing, unwritten policy of making advances of up to \$1,000 to employees who do not receive their paychecks on time because of "payroll processing errors". The advances were intended to reduce financial hardship for employees, who needed to pay rent or meet other critical obligations.

CFM Section 3.2.3 states that, if an employee does not receive a paycheck or is underpaid, the department should notify the A-C and request a supplemental warrant. The A-C generally issues supplemental warrants within three days, and can process a check immediately in an emergency.

While all five advances we identified were repaid, DPW needs to immediately discontinue the practice of making advances to employees, ensure that petty cash is used only for authorized purposes, and train Departmental payroll staff on the proper procedures for underpayments and other payroll errors. In addition, because of the high risk associated with employee advances, DPW should review all petty cash transactions since their payroll advance policy was implemented, and ensure that all advances have been repaid.

### **Recommendations**

#### **DPW management:**

- 3. Immediately discontinue making advances to employees.**

**Status:** On January 20, 2011, DPW management issued a Department-wide e-mail stating that they were immediately discontinuing advances to employees.

- 4. Ensure Departmental payroll staff are trained on the proper procedures for underpayments and other payroll errors.**
- 5. Review all petty cash transactions since the payroll advance policy was implemented, and ensure all advances have been repaid.**

### **Cash Counts**

We conducted surprise cash counts of four DPW petty cash sub-assignments over \$200, and noted that the Department is generally accounting for the funds properly. However, during one of our counts, we noted an immaterial overage of \$2.62 in a sub-assigned fund because the fund custodian used both the petty cash and his own funds to make change. CFM Section 1.6.3 prohibits commingling petty cash with other funds.

We also noted that DPW conducts cash counts annually, instead of quarterly as required by CFM Section 1.6.3. Surprise cash counts help ensure that petty cash funds are properly accounted for.

### **Recommendations**

#### **DPW management:**

- 6. Ensure that fund custodians do not commingle petty cash with other funds.**
- 7. Ensure that surprise cash counts of revolving funds greater than \$200 are completed quarterly as required by CFM Section 1.6.3.**

### **Petty Cash Disbursement Receipts**

We noted that receipts for 20 (51%) of 39 petty cash disbursements reviewed, totaling \$9,294, were not marked "paid", or otherwise cancelled, as required by CFM Section 4.5.2. Canceling receipts helps prevent their reuse and reduces the likelihood of duplicate payments.

#### **Recommendation**

- 8. DPW management ensure that petty cash receipts are marked "paid" or otherwise cancelled.**

### **Petty Cash Purchasing Authority**

Of the 39 petty cash expenditures reviewed, we noted one (3%) that should have been paid using the eCAPS Online Vendor Payment Process, instead of petty cash. Specifically, the reimbursement request was completed over 43 days before the payment was due. Based on the available documentation, this did not appear to be an emergency expenditure and, therefore, should have been paid through eCAPS.

#### **Recommendation**

- 9. DPW management pay non-emergency expenditures using the eCAPS Online Vendor Payment Process instead of petty cash.**

### **Review of Report**

We discussed our findings and recommendations with DPW management. Their attached response indicates they have taken action to limit petty cash reimbursement to non-permittees, and stopped making payroll advances to employees. DPW's response also indicates general agreement with our other findings and recommendations. We appreciate the cooperation and assistance of DPW management and staff during our review.

Gail Farber  
October 27, 2011  
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As noted earlier, DPW needs to implement corrective action, and report back to the A-C within 30 days. Otherwise, we will reevaluate the waiver for reimbursing parking expenses.

Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MP:FL

Attachment

c: William T Fujioka, Chief Executive Officer  
Audit Committee



GAIL FARBER, Director

## COUNTY OF LOS ANGELES

### DEPARTMENT OF PUBLIC WORKS

*"To Enrich Lives Through Effective and Caring Service"*

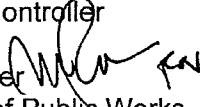
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<http://dpw.lacounty.gov>

ADDRESS ALL CORRESPONDENCE TO  
P.O. BOX 1460  
ALHAMBRA, CALIFORNIA 91802-1460

IN REPLY PLEASE  
REFER TO FILE: FI-2

July 13, 2011

TO: Wendy L. Watanabe  
Auditor-Controller

FROM: Gail Farber   
Director of Public Works

#### RESPONSE TO PETTY CASH REVIEW

Public Works strives to adhere to County fiscal policies. Accordingly, we are in general agreement with your recommendations. We appreciate you allowing us to retain the waiver to reimburse non-mileage permittee from petty cash and have already implemented further controls to ensure compliance with the waiver. In addition, we discontinued the practice of providing payroll advances to employees and available records indicate no advances are outstanding. As indicated in the attached response, we have taken immediate corrective actions and continue to implement additional measures to strengthen controls. We request that you include our actions in your report to the Board of Supervisors.

We appreciate your staff's professional conduct during this audit.

AC:dbm

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Attach.

County of Los Angeles  
Department of Public Works  
Response to Petty Cash Audit Recommendations

**Parking Expense Waiver**

**Recommendations**

**DPW management:**

1. **Report back to the A-C within 30 days with the status of corrective actions taken to address the control deficiencies in this report.**

**Response:** Agree

Corrective actions already taken are noted in their respective recommendations below. Additionally, we will report back within 30 days regarding the status of additional corrective actions.

Target Date: August 11, 2011

2. **Ensure mileage permittees use mileage claims to be reimbursed for parking expenses.**

**Response:** Agree and partially implemented

Central Cashier staff that process non-permittee parking reimbursement requests have already been informed to check the names of employees seeking reimbursement against the current Public Works mileage permittee list, and to return any requests received from mileage permittees along with an explanation of the official policy. Local petty cash custodians will also be instructed to process requests in like manner. In addition, a reminder indicating the proper method for obtaining parking reimbursement will be distributed to all Public Works mileage permittees and petty cash custodians.

Target Date: July 31, 2011

**Employee Payroll Advances**

**Recommendations**

**DPW management:**

3. **Immediately discontinue making advances to employees.**

**Status:** On January 20, 2011, DPW management issued a Department-wide e-mail stating that they were immediately discontinuing advances to employees.

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**Response:** We agree with the recommendation and have ceased the practice.

Public Works adopted this practice many years ago by former management to aid employees who did not receive a pay warrant due to some type of error in payroll processing, and who would experience a hardship. Employees impacted were often the lowest paid and most vulnerable, especially when facing a weekend delay. The advances were only made on rare occasion when there were problems with the receipt of pay warrants, and never in a subjective manner. In addition, the practice was tightly controlled to ensure that the advance was repaid promptly.

Public Works issued a Department-wide e-mail in January 2011 stating that payroll advances to employees were immediately discontinued. No advances have been made since.

Target Date: Implemented

**4. Ensure Departmental payroll staff are trained on the proper procedures for underpayments and other payroll errors.**

**Response:** Agree

Human Resources Management appointed a new manager to oversee payroll, who will assess training needs pertaining to underpayments and other payroll errors and provide training to staff where needed.

Target Date: September 30, 2011

**5. Review all petty cash transactions since the payroll advance policy was implemented, and ensure all advances have been repaid.**

**Response:** Agree and partially implemented

We reviewed all employee advances from FY 2008-09 through FY 2010-11, and determined that all were repaid. During this three-year period, there was a total of 15 advances. For previous fiscal years, we will review and verify repayment status using applicable records in offsite storage.

Target Date: September 30, 2011



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Department of Public Works  
Response to Petty Cash Audit Recommendations**

**Cash Counts**

**Recommendations**

**DPW management:**

- 6. Ensure that fund custodians do not commingle petty cash with other funds.**

**Response:** Agree

Public Works written petty cash policies and procedures prohibit the commingling of petty cash with other funds. A reminder will be sent to petty cash custodians and associated supervisory and management staff.

Target Date: July 31, 2011

- 7. Ensure that surprise cash counts of revolving funds greater than \$200 are completed quarterly as required by CFM Section 1.6.3.**

**Response:** Partially agree

Since your review, we have doubled to tripled our surprise cash count efforts for sub-assignments greater than \$200. Complying with the quarterly frequency has been difficult during staffing shortages. Additionally, some assignments are particularly challenging when located in remote areas, which require notable travel time and risk the unavailability of custodians due the required element of surprise. We will continue to assess how we may coordinate efforts to ensure quarterly compliance, while being cognizant that the benefits should outweigh controls costs. Thus far, increased efforts have not resulted in additional findings.

Target Date: September 30, 2011

**Petty Cash Disbursement Receipts**

**Recommendations**

**DPW management:**

- 8. Ensure that petty cash receipts are marked "paid" or otherwise cancelled.**

**Response:** Agree

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A reminder email was sent to applicable Accounts Payable staff instructing them to always stamp "PAID" on petty cash receipts and to supervisory staff to check for this when reviewing and approving petty cash replenishments.

Target Date: Implemented

**Petty Cash Purchasing Authority**

**Recommendation**

- 9. DPW management pay non-emergency expenditures using the eCAPS Online Vendor Payment Process instead of petty cash.**

**Response:** Agree

Impacted staff will be instructed to use the eCAPS Online Vendor Payment Process when applicable, and to avoid using petty cash unless there is an emergent situation.

Target Date: July 31, 2011